DAS I/3 INTERIM CUSTOMER COUNCIL MEETING
May 19, 2006

Members Present:
Roger Stirler, Department of Education; Charlie Smithson, Ethics (via phone); Steve Mosena, Department of Human Services; Rich Jacobs, Department of Revenue; Peggy Sullivan, Judicial; Carl Martin, AFSCME; Mike Tramontina, DOM (for Joel Lunde).

Members Absent
John Baldwin, Corrections – Absent
Penny Westfall, ILEA – Excused

Guests
Mollie Anderson, DAS Director; Lori McClannahan, DAS-I/3; Sharon Sperry, DAS-I/3; Deb Madison-Levi, DAS; Cal McKelvogue, DAS; Nancy Williams, DAS/GSE, Julie Sterk, DAS; Jay Cleveland, DAS; Anieta O'Hair, IWD; John Gillispie, DAS; Pat Deluhery, DAS; Patricia Lantz, DAS; Laura Riordan, DAS; Jess Benson, LSA.

Call to Order
Meeting called to order by Chairman Roger Stirler at 9:00 a.m.

Approval of Minutes – March 17, 2006
Correction on page three, next to last paragraph (delete tracking change note). Rich Jacobs moved to approve the minutes with correction. Carl Martin seconded the motion. Motion passed.

Election of new officers
Floor opened for nominations. Steve Mosena nominated Roger Stirler, Rich Jacobs seconded the motion. Finding no other nominations, motion passed. Roger Stirler re-elected as chairperson.

DAS Director Anderson Report
Director Anderson discussed the importance of the I/3 project; DAS staff provided background material for Director Anderson's report and any questions that Council members may have.

Director Anderson discussed the graphs in the information submitted to the Council. The graphs include background information on the past appropriations we have received for I/3. (Document attached as part of the minutes.)

- In 2003, we began with the first appropriation for construction of $4.4 million dollars with expenditures of $2.8 million dollars.
- In FY04, we carried over $1.5 million dollars and received new money for more construction in the amount of $6.1 million dollars. This is what is shown on the chart as ERP1. Expenditures for construction in FY04 was $1.5 million (the piece from the original money received) and $2.4 million out of the $6.1 million in new money that came in FY04.
- In FY05, we received $3.1 million in new money. We had $3.6 million in revenues carried over from the previous year for construction and we had a balance brought

forward from the first appropriation we had of $264.00. Expenditures indicate that we depleted the money we received for construction, spent all that was left out of the original money and the second pot and spent $1.9 million for construction out of the last money we received.

- In FY06, there was no new money. All that we have is money left over for construction and we had the balance brought forward from the second money we received of $1.7 million dollars, we had spent all of the old money (year one and year two) and we had the third project money which was the $3.1 million dollars. Expenditures for FY06 you see $821,243 out of ERP1 and $2 million for construction in FY06 out of ERP2.
- Director Anderson reminded members that we received two pots of money – construction and ongoing expenses. The ongoing expenses in the long-term are the cost of operating I/3. Calvin McKelvogue reminded everyone of two important items on the construction money, i.e. this is money that came out of tobacco securitization program and that money can only be used for capitol assets, it cannot be used for ongoing resources. When we say there are two "pots," there is a separate fund that contains money for construction and there is another fund that I/3 operations are run out of. Director Anderson has had discussions with DOM about the use of this money, to see if there is any way it could be used to "soften the blow" of operating expenses and has found that it is not possible. There are opportunities for us to look at issues; if they are brand new improvements that need to be made and could be classified as construction, then we will use it for that; however, we have sought approval from DOM for that.

  Mike Tramontina added that these funds are tax-exempt bond proceeds and cannot be used for operating expenses. They have to be used to expand the useful life of the project; there is a useful life test applied every time you use tax-exempt bonds.

- Director Anderson reported that for FY03 and FY04 revenue and expenses related only to construction; in FY04, we began operations of the system and brought it live in June. In the first year, we received roughly $2.9 million dollars for operations and that was an appropriation referred to as ERP3. Expenditures for I/3 that year were fairly limited at $689,000. We carried over into the next year $2.2 million dollars and the yellow portion of the pie chart (Tab 10, page 4) is the portion that was the utility fees - the money that was distributed; the $2.2 million, which is what we thought was the amount of money we calculated, should be distributed to each of the agencies. We also received $2.7 million dollars from Pooled Tech. That is the revenue we had for operating I/3 in FY06. Expenses for operating I/3 in FY06 was $5.3 million dollars.
- For FY07, revenues for operations included the balance brought forward of $1.7 million dollars which was (if you think about all of the appropriations that we received for operations – it's all the balances brought forward related to those appropriations), $883,616 that was requested for SME's - that is what we expect and hope that we will get; we are still working on our budget. That is the new appropriation we received in this Legislative session. Again, the $2.3 million for utility fees and the $1.5 million, which represents a buy-down agreement with the Feds. Our expected expenditures for FY07 are $5.3 million dollars.
- For rate setting for FY08, our projection is that the cost of running I/3 will be $5.8 million dollars. $884,000 is the amount we hope to get from another appropriation

request, the $1 million dollars represents working capital that we are allowed to carry over into '08 (60 days of working capital). Calvin McKelvogue noted with the $1 million that there is some money involved with the SME's; we are going to have to make a decision on how we are going to handle that, it will depend on whether the SME's are accounted for in the same fund as the rest of I/3 operations – the appropriation was made to the DAS General Fund. The $1 million is more than the working capital. Director Anderson stated that $4.5 million dollars is left and this is the amount needed from the Utility Fee to support the I/3 operations. This compares to the $2.3 million previous amount in the Utility Fee. This amount is different depending on the divisor you use - what percent of increase it is for what department. It is not correct to say that everybody gets a 100% increase.

Department of Management Comments

Mike Tramontina thanked the Council for adding a member from DOM to the Council, noting IDOM's attachment to I/3 through I/3 budget and the work DOM staff has done with the whole I/3 team on funding. Mr. Tramontina also noted that Joel Lunde will be the regular member of the Council.

In his comments to the Council, Mr. Tramontina said that IDOM is committed to two things: Enterprise Management, because it works by bringing market-type forces (needs of customers and pressures on sellers, i.e., DAS) to State Government. IDOM believes this is a permanent institutional change that will benefit the State for a long time. Second, IDOM is committed to the I/3 Financial System. Mr. Tramontina stated that more and better information was needed in the budget office, the Governor's Office and in the Legislature, making the need to move up to a modern system necessary. Although it's not done yet, moving to the I/3 system has allowed progress to be made. The Governor and Lt. Governor will look back and say that might have been one of the more "invisible things we did" for the public, but it might be one of the most important things we did.

Mr. Tramontina went on to acknowledge that, while the rollout of I/3 has been rocky, it always is with new software and that we need to continue to make improvements in order to leave this a better government when the administration leaves than when we found it. He gave the whole I/3 staff credit for the progress that they have made since the rollout. Mr. Tramontina said that while he thinks the system is working pretty well today, the need for continued progress is without question.

Continuing, Mr. Tramontina observed that the problems experienced were not just a software issue; it was that the State overall was not really ready to implement a system of this type when they did it. The biggest change he has seen is changing the hardware in order to be able to monitor the system, noting that the new Help Desk reporting tool should be able to help monitor even more as it pinpoints the problems so that reaction can be more focused and much faster. He also noted that there are still decentralized systems that need to be coordinated better – that is part of the progress we need to continue to make.

Mr. Tramontina went on to assure the Council that the Administration is committed to the I/3 project, as evidenced by the Governor's requested appropriation for the Subject Matter Experts (SME's). DAS ended up with one of the bigger increases the departments received – largely due to the SME's appropriation. The SME's provide an information link between the customers and the system, providing an interface and making transitions and training easier. The appropriation for the SME's was the biggest single thing the Administration could do in '07 to take the bite out of how big the fee that goes to the customers. Mr. Tramontina encouraged the continued use of tax-exempt funds, as long as eligible uses could be found. He noted that one of the roles of this Council is to understand what must be worked on next, what are we working on after that, and what is the long-term plan we are working on.

Mr. Tramontina noted that the Governor's Office and IDOM have spent considerable time looking at I/3, and they will commit now to put in the FY08 budget another distribution in excess of $2 million, the same way the distribution was done the first time. They also will propose in FY08 another distribution to departments like the first one on the pro rata basis (though it could turn out to be some other pro rata).

He also said that I/3 would not be made a Leadership function, saying that the operating expense seems pretty well in line with what it probably should be. Operating expenses should be expected to jump when you go to a new and dynamic system, and we saw that with I/3. The Customer Council should take ownership of determining what level it should jump to and how fast it should continue to increase. Mr. Tramontina said he feels the level it has moved up to is in line with what should be expected.

Mr. Tramontina also noted that, while questions about the cost of the system have been raised in the past, he feels, at this point, that the price of the system was very inexpensive. $10.5 million in capitals have gone into I/3 to date, according to Calvin's numbers. We have to realize the cost of this system isn't just the purchase price on the first day, it is the moving to 3.6, the moving to 3.7, it's changing the vendor entry system and those other pieces that have to keep being built around it, it is the other equipment to make the monitoring and making the coordination among all of these decentralized servers. We need to continue to invest in this in terms of capitals and making the system work outside of the actual cost of I/3 and operating I/3. If we leave it at this price and don't continue to invest in it – in the hardware and software and the changes to adapt to our system – then it will not have been a good expenditure. If we continue to expend on it, and if we spend another $10 million dollars on it, we are going to look back on it and say that was a good price. If we continue to invest in it, there is plenty to grow an investment from $10 million to probably $40 million, which it could easily have cost on the first day for this system to really work well and it doesn't appear to me it is ever going to cost that kind of money. We are going to look back on this and say – that was a good investment if we continue to invest in it.

As a condition of providing an FY08 distribution, Mr. Tramontina said that the Administration is seeking some things in return: 1) That we continue to move ahead with upgrades to the system; and 2) That we continue to make progress on the short- and long-term plans to make I/3 operate smoothly. Part of that process will entail getting all departments on board, working on their business process, and training them as upgrades are introduced. IT can't run a new system and change the whole business process alone – departments have to be involved. Along with the

development of software, departments need to be identifying changes and streamlining processes.

Mr. Tramontina said that Cindy Eisenhauer of the Governor's Office has agreed with him, and that they'll put this appropriation in the FY08 budget and they'll go right with the team to Appropriations Committee to get that distribution in excess of $2 million. In fact, said Mr. Tramontina, he welcomes opportunities to join the whole team at Oversight or at Appropriations with the LSA, and to talk about what we spent on this system, where it's at, where it is going (short- and long-term), how much more is going to need to be spent, what type of money and the reasons for the upgrade and why this still represents an outstanding value – as long as we keep doing these upgrades and keep moving up the process. Looking back, this is going to be a good value for the taxpayers.

In regards to the I/3 procurement, Mr. Tramontina noted that we are trying to get the community colleges to participate more in the State's procurement system, the strategic sourcing methods that DAS has introduced to state government. He noted that Patrick Deluhery is working hard trying to get community colleges and K-12 to participate, and that the Strategic Sourcing Initiative has the potential to save a tremendous amount of money. In order for the Strategic Sourcing Initiative to be successful, the system needs more data in order to analyze purchasing habits. I/3 has the potential to give us all that data quickly, but it needs to be entered correctly. The earlier we are able to collect data, said Mr. Tramontina, the faster the state will start saving money on purchasing.

Mr. Tramontina stated DOM will do a June budget memo like they always do, and instructions will be in there on how to request a distribution amount for the SME's.

Carl Martin asked why I/3 was not made a Leadership function. Mr. Tramontina replied that the Administration is committed to Enterprise Management because it works better than the traditional methods of oversight and monitoring by allowing a more direct relationship with the customer, allowing people who operate like a Board and are familiar with the product and associated concerns to make decisions that will, in the long-term, make the system work better and cost less.

Carl Martin stated his concern is people; my agency is already looking at a number of staff going away this year. Mike Tramontina stated the political chances of one are the same as the political chances of the other. Steve Mosena noted from his experience, it would be more difficult as a Leadership just because of the views of the Legislature. Director Anderson added that in the last two years, anything requested in Leadership has been more difficult for us to get than for agencies to get as cost of doing business.

IWD Rate Application Discussion
Anieta O'Hare from IWD spoke to the Council regarding how the I/3 Customer Council applied the rates on using the older FTE numbers when we developed the rate this year.

Calvin McKelvogue stated he did not see the I/3 expenses as a rate or a fee being charged to the department. The way this is being set up and the way the Feds are asking us to do this is

basically an allocation of the cost out to the departments. They are asking us to distribute those costs out based on revenues, expenditures and FTE's. The question is, whether we can use more current data. We are using the most current data right now that we can give you.

Anieta pointed out that IWD is looking at deficiencies, a Federal funding source is going to run out in FY07, FY08 we do not have that funding source. The Legislature appropriated IWD short $1 million dollars of that the need is, causing the agency to close 15 offices. IWD has had a decrease in staffing, looking at an additional decrease in the next two fiscal years where other agencies have increased their staff.

Anieta stated because this statistical data is so old, IWD is looking for a more reflective rate setting divisor - we are looking for more current data that better reflects what is currently happening within all agencies.

Charlie Smithson (via phone) referred to the Dispute Resolution Process adopted by the I/3 Customer Council.

Rich Jacobs read from the Dispute Resolution Process: "However, the Council shall not make any adjustments to any established rates." The point is, we can listen in an appropriate manner but we can't do anything for FY06.

Charlie Smithson noted he just raised this as a "point of order."

FTE rate formulas discussed at length.

Update on I/3 System – Sharon Sperry & Lori McClannahan
Lori McClannahan distributed an "I/3 Update information sheet," discussed this at length answering questions. (Attached as part of the minutes.)

Communications – we just improved the distribution list to include all users noting that we have some users that don't want to be on the distribution list. Calvin noted how important it is that people that read this information for notices, an example notification of times we have to take the system down, etc. Lori noted she does put the topic on the e-mail to help users in deciding whether to read or not.

New I/3 On-Line Performance Reporting Tool discussed, noting it is a different way of getting information for IT people – IT needs the information in a real time manner to give IT the opportunity to find the problem and get it fixed. It is really important that IT gets notified in real time what is happening. This is really important in continuing to get the vendor to fix problems within the software.

Rate-setting discussion (finalize the divisor)/Financial Update
(DAS I/3 FY08 Utility Information document attached as part of the minutes.)

Tab 4, page one is the budget for the I/3 project. This report gives three fiscal years; we have this broken down by org (6900 IT portion) (6910 SME portion).

Calvin McKelvogue went through this report with Council, and answered questions.

Calvin noted we are using the total allocated cost of the system (the payments that were made to CGI-AMS) as the basis to move forward with the Federal government on what the cost of each component is. The Feds very much want to know what the cost is per component; they want the allocation to be made by components. As we mature and start getting more figures and information, then the Feds will start going on what it costs to actually operate the system. You have to have more than just one year's worth of data – they are going to want a three- to five-year period of data to be able to determine this. Right now what they have told us, the best method to do this is based on what the cost of the implementation was. They will come back as we develop the data and they are going to want to change that. Calvin stated we had to come up with a basis we could support and could give to the Feds on a consistent basis. Until we go to the major change when we can say how much actually is the cost for each one, we would stay with this allocation basis since we have this documented, the Feds can trace it back to those agreements all the way through.

Calvin referred to Tab 7, page one, which is the allocation formula and the basis the subcommittee came up with last year. We stayed with the same idea. Council discussed and Calvin answered questions.

Agenda Items for Next Meeting – Roger Stirler
- Rate Discussion - Budget

Close and Adjourn
Meeting adjourned at 11:00 a.m.

Respectfully submitted,
Nancy Williams

Minutes approved without change: I/3 Customer Council meeting, June 8, 2006